



State of Arizona

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Governor

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The Facts about a Capitol Buy-Back

Background:

In 2010, the State of Arizona – facing a multibillion-dollar budget shortfall – borrowed approximately \$1 billion in order to avoid further and more devastating cuts to education, public safety and other critical state services. State buildings, including the Executive Tower, State House of Representatives and State Senate (the Historic Capitol was never sold), were used as collateral against the debt. This arrangement is known as a sale/leaseback, and allowed the state to generate quick revenue while maintaining operation and use of its buildings. The bonds were for 20 years, so the State currently is scheduled to fully retire the debt in 2029.

With State finances improving, Governor Jan Brewer has proposed buying back the Capitol complex this year – erasing a portion of the State's debt, symbolically reclaiming the Capitol for the people of Arizona and saving the state significant interest costs that would otherwise accrue over the life of the bonds.

What follows are answers to some common questions about this proposal.

Question: Why buy back the Capitol now?

Answer: This is part of the Governor's plan to pay down state debt, and she believes regaining ownership of the Capitol is an important civic statement that the State of Arizona can and should make in its Centennial Year. *The people of Arizona should own their House of Government, the Arizona State Capitol.*

Q: How much would it cost to buy back the Capitol?

A: The Governor has asked for an appropriation of \$106 million. This would come from an estimated budget surplus of \$600 million this year.

Q: What about pre-payment penalties?

A: *There are no pre-payment penalties.* This buy-back is accomplished through an accounting technique known as a "defeasance," through which the state will place the \$106 million into an independently-managed, escrow account. That fund will cover the interest and principal payments until the earliest time the debt can be called, in 2019.

Q: If the debt can't be called until 2019, when does the state reclaim the deed and have the lien released?

A: *Immediately.* Once funds are in the escrow account, the state reclaims legal title on the Capitol and the debt is removed from the state's accounting statements.

Q: Won't the state have to pay more for the Capitol than it received as part of the sale in 2010?

A: The state received about \$81 million for the Capitol complex in 2010, and would buy it back for \$106 million. This disparity is due to interest that the state would continue to pay on the arrangement until the debt can be called in 2019. *However, the Governor's plan would SAVE the state \$47.5 million in interest payments that would otherwise accrue on the debt over the life of the 20-year bonds.*

Q: Doesn't the state have more pressing needs right now?

A: Selling the Capitol in 2010 was a measure of last resort when the only other option involved decimating public education, public safety and health and human services. With state finances improved and a \$1.3 billion surplus estimated between the remainder of this fiscal year and next, now is the time to reclaim the Capitol and retire this debt.

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